



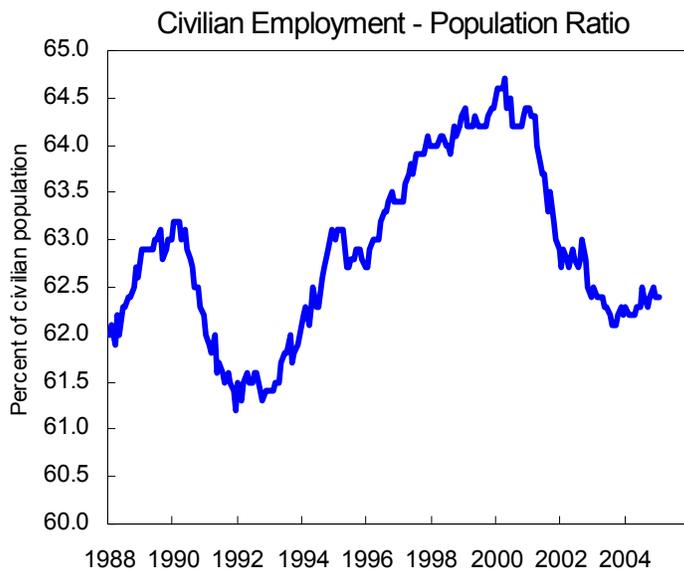
WEEKLY ECONOMIC DIGEST



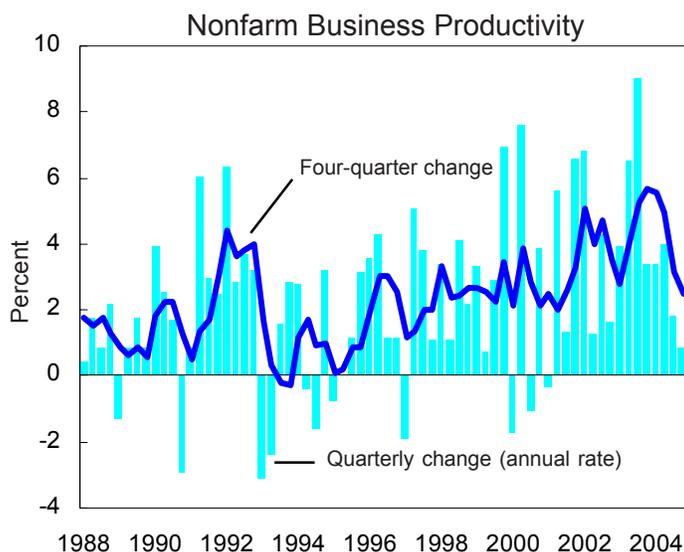
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI)

February 8, 2005

Growth of Employment and Earnings Remain Subpar



Source: Bureau of Labor Statistics, U.S. Department of Labor.



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Growth of nonfarm payrolls fell short of expectations in January.** Payroll employment at nonfarm establishments grew by 146,000 jobs last month. That rise was well below the 200,000 rise expected by financial markets. Although total nonfarm payrolls have been growing for 20 months, monthly job gains have averaged only about 137,000 jobs. At that rate, payroll growth is barely sufficient to keep pace with normal growth of the labor force.
- **The unemployment rate dropped to 5.2 percent in January.** The decline in the unemployment rate reflected a drop in the rate of labor force participation to 65.8 percent, the lowest level since June 1988. The fraction of the population that was employed was unchanged at 62.4 percent in January (top chart). Both the employment-population ratio and the labor force participation rate remain substantially below their levels at the start of the recession.
- **Productivity growth slowed sharply in the fourth quarter.** Output per hour in the nonfarm business sector grew at an annual rate of only 0.8 percent in the fourth quarter of last year – down from a 1.8 percent gain in the third quarter – and ended the year 2.5 percent above its level at the end of 2003 (bottom chart). Some slowing in productivity growth from the unusually robust pace in recent years was probably inevitable, but the sharp deceleration of the fourth quarter is likely to be temporary.
- **The weak labor market means productivity growth is still not reflected in workers' earnings.** Data released along with the productivity data show that real (inflation-adjusted) hourly compensation fell by 0.3 percent at an annual rate in the fourth quarter of 2004, and closed the year only 0.2 percent above the level at the end of 2003. Since the recovery officially began in late 2001, productivity growth has exceeded compensation growth by an average of 2½ percentage points per year, more than has been true at comparable points in prior recoveries.

The Economy at a Glance	Jan	Dec	Nov	Oct	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.1	4.0	3.3	4.5	4.4	3.0
Industrial Production (% growth)	n.a.	10.0	2.4	10.0	4.1	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)	n.a.	79.2	78.6	78.5	78.8	78.2	77.9	77.3	78.0	75.5
Civilian Unemployment Rate (level, %)	5.2	5.4	5.4	5.5	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)	n.a.	2004	1807	2065	1959	1969	1920	1943	1948	1853
Real Disposable Personal Income (% growth)	n.a.	9.4 [#]	2.4	2.4	4.1 [#]	2.0	2.8	2.4	3.1 [#]	2.3
Retail Sales (% growth)	n.a.	15.4	1.2	13.3	10.3	5.7	6.6	10.4	7.6	5.3
Personal Saving Rate (level, %)	n.a.	0.1 [#]	0.3	0.2	0.2 [#]	0.5	1.3	1.0	0.8 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	-1.2	2.4	7.4	3.0	0.6	4.8	5.1	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	2.4	2.4	2.4	2.0	1.8	2.3	2.9	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.8	3.6	4.1	4.5	3.7	4.1
Output per Hour (% growth)	—	—	—	—	0.8	1.8	3.9	3.7	4.1	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.33	2.19	2.07	1.76	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.22	4.23	4.19	4.10	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.29	2.16	1.93	1.76	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10540	10673	10412	10002	10362	10130	10289	10488	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

[#] Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December.

Upcoming Economic Releases:

- **Monthly Wholesale Trade: Sales and Inventories, December 2004** [Release: Wednesday, February 9]
- **U.S. International Trade in Goods and Services** [Release: Thursday, February 10]
- **Final Monthly Treasury Statement: January 2005** [Release: Thursday, February 10]